

EXAMINATION NO. _____



2015 EXAMINATIONS

PROFESSIONAL LEVEL

PAPER B4: TAX COMPLIANCE

TUESDAY 8 DECEMBER 2015

**TIME ALLOWED : 3 HOURS
9.00 AM - 12.00 NOON**

INSTRUCTIONS

1. You are allowed **15 minutes** reading time **before the examination begins** during which you should read the question paper and, if you wish, make annotations on the question paper. However, you are **not** allowed, **under any circumstances**, to open the answer book and start writing or use your calculator during this reading time.
2. Number of questions on paper – 6.
3. The paper is divided into **TWO** Sections, **A** and **B**. **BOTH** questions to be answered in Section **A** and **ANY THREE** from Section **B**.
4. Each question carries 20 marks.
5. Use of non-programmable calculators is allowed.
6. You are provided with the following:
 - (i) A set of tables containing rates of tax on taxable income (Table 1).
 - (ii) Rates of capital allowances (Table 2).
 - (iii) Penalties for failure to pay provisional tax (Table 3).
7. Begin each answer on a fresh page.
8. **DO NOT OPEN THIS PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.**

This question paper contains 9 pages

This question paper must **not** be removed from the examination hall.

SECTION A

ANSWER BOTH QUESTIONS IN THIS SECTION

1. Mega Limited, a company incorporated in Malawi, is a subsidiary of a South African registered company. The company is in the retail trade and operates supermarkets in the four major towns of Malawi. The company prepares its financial statements to 30 June each year.

The following are the company's financial results for the year ended 30 June 2014:

	Note	K'000	K'000
Turnover			225,340
Cost of sales	1		(158,500)
Gross profit			<u>66,840</u>
Less expenditure:			
Marketing costs	2	26,900	
Administration costs	3	25,750	
Finance costs	4	<u>19,779.10</u>	(72,429.1)
Loss from trading activities			<u>(5,589.1)</u>
Other income			
Profit on disposal of assets		115.20	
Rental income		560.30	
Dividend received		375.10	
Sundry income(taxable)		<u>38.15</u>	1,088.75
Loss before taxation			<u>(4,500.35)</u>

Notes

- (1) Cost of sales include the following:

	K'000
Opening stock	22,400.50
Purchases	74,200.00
Closing stock	<u>(32,500.50)</u>
	64,100.00
Stock pilferage	2,515.00
Provision for stock losses (1% of purchases)	<u>742.00</u>
	<u>60,843.00</u>

(2) Marketing costs include the following:	K'000
	1,660.00
Billboard advertising	5,600.00
Salaries and wages	3,368.00
Motor vehicle expenses	252.50
Traffic fines	285.60
Customer entertainment	695.20
Depreciation	

(3) Administration costs include the following:

	K'000
Salaries and wages	22,738.20
Depreciation	1,045.80
Donations to local chiefs	185.00
Donations to Save the Children Fund	590.00
Subscription to Chamber of Commerce	475.00
Construction of storeroom on rented premises	566.00

(4) Finance costs include the following:

Exchange loss on conversion of year-end balances	945.50
Interest on bank overdraft	558.90
Interest on late payment of taxes	465.00

The following additional information is also available:

- (1) The company has surplus houses which it rents out. The rental received is shown in the income, gross. However, withholding tax had been deducted by the tenants.
- (2) Included in salaries and wages charged to the various cost centres are fringe benefits valued at K876,500. The respective tax has been included in finance costs.

The following information is available in connection with the company's assets:

Asset	Date of acquisition	Original cost K'000
Delivery vans (2)	1 March 2013	8,400
Passenger motor vehicles (4)	1 April 2013	3,450
Computers	31 May 2013	1,895
Plant and equipment	31 August 2012	6,550
Shop buildings	1 July 2012	2,750
Plant and equipment	15 August 2013	7,650
Computers	20 September 2013	965
Delivery vans (2)	5 January 2014	9,100

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The plant and equipment represents refrigeration plant installed in the shops.
All the above assets, except for motor vehicles, were new and unused at the date of acquisition.
One motor vehicle, which cost K862,500 at the date of acquisition and had a book value of K460,000 at the beginning of the financial year, was sold during the year for K725,000.

Agreed capital allowances were K 4,320,000

Required:

(a) Calculate the capital allowances to be claimed by Mega Limited for the year ended 30 June 2014. **14 Marks**

(b) Calculate the taxable income for Mega Limited for the year ended 30 June 2014. **6 Marks**
(TOTAL : 20 MARKS)

2. (a) Mkeka enterprise is a manufacturer of cane chairs which it exports to South Africa and other neighbouring countries. The enterprise, which has been in operation for the past seven years, is strategically positioned at Mwanza Boma. An extract of their accounting records for the year ended 31 March, 2014 reveals the following:

	K
Realised exchange gains	400,800
Realised exchange losses	250,200
Unrealised exchange gains	84,500
Unrealised exchange losses	185,400

Required:

State how these foreign exchange gains and losses will be treated in the computation of taxable income for Mkeka enterprises, giving reasons for your treatment of each case.

5 Marks

Continued/.....

- (b) Moses Phiri, an accountant, is currently working for a local engineering firm, Chimango Engineering Limited. He has, however, been approached by a rival firm to join them in a similar position.

His current earnings from Chimango Engineering are as follows:

	K'000
Salary	12,700
Children's school fees	1,500
Company car (business use only)	6,500
Bonus (fixed)	1,100

The prospective employer is offering him the following package:

	K'000
Salary	12,500
Children's school fees	1,500
Car allowance	1,870
Utilities (electricity, telephone and water)	455

The following additional information is available:

- (1) In both cases, the company contributes 10% of basic salary towards the pension fund. The employee contributes 5% of salary.
- (2) The prospective employer will not provide a car but instead will give a car allowance for use of his personal car.
- (3) Both employers will provide free medical cover for the employee but he will contribute 50% for his dependants.
- (4) The current employer does not provide housing, instead a housing allowance of K80,000 per month is paid to the employee. The prospective employer will rent an unfurnished house for him at a rental of K110,000 per month.
- (5) The current employer pays school fees for the employee's children in the form of an allowance paid directly to him. On the other hand, the prospective employer will pay the fees directly to the school.

Required:

- (i) Calculate the tax payable, net earnings and benefits under each employer, and advise Moses Phiri whether or not he should accept the offer from the prospective employer, based on financial considerations. **12 Marks**
- (ii) Calculate the fringe benefits tax payable by each employer. **3 Marks**

(TOTAL : 20 MARKS)

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SECTION B

ANSWER THREE QUESTIONS ONLY FROM THIS SECTION

3. (a) Mention the **five** records that must be maintained by persons registered for value added tax (VAT) for purposes of accounting for VAT. **4 Marks**
- (b) State the circumstances under which VAT may be claimed on stock and capital goods which were purchased by a taxpayer prior to him being registered for VAT. **3 Marks**
- (c) Margaret Nyanja, trading as Agricorp Shops in Salima, is registered for VAT. She makes both taxable and exempt supplies. She is registered for the special retailer's scheme.

Required:

Explain how the output tax for Margaret Nyanya will be calculated. **4 Marks**

- (d) Margaret Nyanja entered into the following transactions for the month of April 2014:

	K
Gross daily takings for the month	2,816,000
Exempt supplies in gross takings	2,445,080
Total purchases for resale made in the month	3,359,800
Taxable purchases made in the month	3,112,500

Required:

Calculate the output tax for Margaret Nyanya for the month of April 2014 using the two methods available to retailers. **4 Marks**

- (e) A taxpayer receives a notice of assessment of income tax from the Malawi Revenue Authority (MRA). However, he disagrees with the basis for computation of the income tax due from him.

Required:

Outline how he can appeal against the assessment under the provisions of the Income Tax Act and explain the role and powers of the special arbitrator. **5 Marks**

(TOTAL : 20 MARKS)

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4. Jombo Investments imported goods from Turkey on 1 January, 2014 on an open account. The goods cost the business US\$632, 000. At the time of importation, the exchange rate was K420 to US\$1. The business prepared management accounts for the month of January 2014 and recorded the foreign liability in its books using an exchange rate of K450 to US\$1 which was ruling at 30 January 2014. The business, eventually, paid for the goods on 16 February, 2014 when the exchange rate was K480 to US\$1.

Required:

- (a) (i) Calculate the value of the goods, in Kwacha, at the time of importation and also at the time that the business was preparing management accounts. **1 Mark**
- (ii) When are foreign exchange gains or losses said to be from a source within Malawi? **2 Marks**
- (iii) Calculate the exchange gain or loss to the business at the date of paying for the goods. **2 Marks**
- (b) Assuming the goods imported by Jombo Investments attracted customs duty at 30%, excise duty at 25% and value added tax of 16.5%.

Required:

- (i) Calculate the value, for duty purposes, of the imported goods. **1 Mark**
- (ii) Calculate the total duties and taxes (customs duty, excise duty and value added tax) that the business paid in order to clear the goods. **7 Marks**
- (c) According to the Customs and Excise Act, goods may be imported for a number of reasons.

Required:

- (i) State any **three** reasons that the Act allows that goods be imported for. **3 Marks**
- (i) State any **four** documents that are commonly used in customs under clearance which must be submitted to Customs authorities. **4 Marks**

(TOTAL: 20 MARKS)

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5. John Kanyemba is a medical doctor, practising in Blantyre as Kanyemba Clinic. This is an unincorporated business. Kanyemba makes up his financial statements to 30 June each year.

The following are his abridged results for the year to 30 June 2014:

	K	K
Net profit before taxation		1,550,000

In arriving at these results, the following items had been charged to the income statement:

Salary for John Kanyemba		700,000
Rental for John's house		450,000
Depreciation for:		
Surgery equipment	76,000	
Office equipment	45,600	
Motor Vehicle	<u>92,400</u>	214,000
Subscription to the Medical Council of Malawi		156,000

It has been agreed that the motor vehicle is also used for private purposes. The private use has been agreed at one third of total usage. Motor vehicle running expenses, excluding depreciation, were K399,000.

Capital allowances agreed to be claimed for the business have been calculated as follows:

Dental surgery equipment	412,500
Office equipment	73,100
Motor vehicle	<u>87,500</u>
	573,100

The turnover for the Clinic for the year was K7,930,000.

John is married to Fatima, who works as a marketing officer for a local supermarket.

The following information is available regarding their earnings, in addition to the business income, for the year ended 30 June 2014:

	John K	Fatima K
Salary	-	2,730,000
Housing allowance	-	273,000
Bonus	-	1,355,000
Directors fees (gross)	270,000	-
Interest received (gross):		
MSB Bank	64,000	45,000
Dividends	-	20,000
House rentals from a house in Lilongwe	850,000	-

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The following are their outgoings in respect of the above income for the year:

	John K	Fatima K
Donations – Save the children	190	700
Mortgage payments (60% capital) Lilongwe house	580,000	-
Repairs to house in Lilongwe	157,200	-

Withholding taxes had been deducted on receipts from dividends, directors fees, interest and rentals. PAYE was duly deducted from both John and Fatima's salaries on the due dates.

Required:

- (a) Calculate the total income, inclusive of business profit, that is subject to taxation for John and Fatima Kanyemba for the year ended 30 June 2014. **13 Marks**
- (b) Calculate any additional tax to be paid by John and Fatima Kanyemba for the year ended 30 June 2014. **7 Marks**
(TOTAL : 20 MARKS)

- 6. (a) Define the term "testacy". **1 Mark**
- (b) Domicile by choice is one of the three types of domiciles recognized under the Estate Duty Act.

Required:

- (i) Define "domicile by choice". **2 Marks**
- (ii) State any **five** factors that are taken into account to prove domicile by choice. **5 Marks**
- (c) Under estate duty, there are certain admissible deductions allowed from the total value of property before computation of taxable value following the death of a person.

Required:

- Mention the admissible deductions. **2 Marks**
- (d) Describe the **five** fundamental principles for accountants as prescribed by the International Federation of Accountants (IFAC). **5 Marks**
- (e) Jilimono Limited, a company incorporated in Malawi, whose taxable profits for the 2014/2015 tax year amounted to K23,200,000, had never paid provisional tax during this period.

Required:

- Calculate the penalty that the company is liable to pay. **5 Marks**
(TOTAL : 20 MARKS)